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SIPDIS

SENSITIVE

STATE FOR E, P, EUR/SE AND EB
TREASURY FOR U/S TAYLOR AND OASIA - MILLS
NSC FOR QUANRUD AND BRYZA

E.O. 12958: N/A

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SUBJECT: TURKEY'S ECONOMY MARCH 14: MARKET WORRIES MOUNT IN
ADVANCE OF MARCH 18 AUCTION

Sensitive but unclassified, and not for internet
distribution.

[1](#)1. (U) Turkish financial markets in morning trading March 14 are beginning to reflect the concern that the U.S. financial package is off the table. The benchmark lira T-bill rose two percentage points to close at 60 percent compounded. The lira depreciated one percent, now trading at TL 1,650,000 to the dollar (yesterday's close was TL 1,633,000). The Istanbul Stock Exchange closed down 1 percent in the morning session.

[1](#)2. (SBU) Turkish market contacts tell us the market downturn is in the beginning phase. As JP Morgan/Chase trader Gumisdis said, "The ranks of the believers (in the U.S. package) are thinning, but no package is not priced in." He sees interest rates in the March 18 debt auctions (before the \$3.2 billion redemption on March 19) in the 63-65 percent range.

[1](#)3. (SBU) Also on March 14, General Manager of Akbank (the largest holder of Turkish debt) Zaafer Kurtul told us the March 18 auction rates will easily reach 65 percent, given the current uncertainties about the U.S. package. He added that there is still some expectation about the U.S. package, and as it becomes clearer to everyone that the package is off, then interest rates would continue to climb from the 65 percent level. Kurtul was uncertain himself on the status of the U.S. package, but worried with reports that U.S. military ships were leaving Turkish waters and headed to the Suez Canal.

[1](#)4. (U) At noon March 14, Turkish media published two reports that will affect afternoon trading:

-- AKP Chairman Erdogan told the press that "it is possible that the new government list (of Cabinet members) will be presented to the President today." (Comment: this may give markets hope that the new GOT will move to pass a second U.S. troop deployment quickly.)

-- Turkish TV news channel NTV reported that in Secretary Powell's Congressional testimony March 13 the Secretary said, "In this context, the package (of financial aid for Turkey) is now not on the table."

PEARSON